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Testimony Introducing

LD 1107, Resolve to Establish a Pilot Project to Improve Access to Credit for Low-income Individuals

March 28, 2023

Senator Tipping, Representative Roeder, and esteemed members of the Joint Committee on Labor and Housing, thank you for today's hearing. I'm Sam Zager, representing House District 116, which is part of Portland, and I'm pleased to introduce this *bipartisan* resolve.

Problem to Address: Despite paying rent reliably, too many Mainers have difficulty establishing credit for major purchases, such as a home or post-secondary education. They either forego such lifetime investments, or suffer much higher interest rates. This contributes to growing income inequality and generational wealth disparities, and also keeps the market from operating efficiently. Democrats and Republicans, and property-owners and renters, agree that it's unfair that individuals and families who are paying their rent on time don't get that reflected in their credit score. There's a disconnect that harms a large number of renting Mainers.

Context: One-in-four Maine households rent their housing, and approximately one-in-four of renting households in our state--39,000 households--are "extremely low income" households (housing costs take more than half of their income).^{1,2}

¹ Approximately 39,000 of 152,000 *renting* households in Maine are "extremely low income." There are approximately 570,000 total households in Maine. Greg Payne, Maine-based housing expert, 12/1/22. See also <https://www.census.gov/quickfacts/ME>

² The statutory definition of "Low income" in this bill is "persons or families, elderly or otherwise, who lack the income which is necessary, as determined by a housing authority, to enable them, without financial assistance, to live in or purchase decent, safe and sanitary dwellings, without overcrowding." MRSA, Title 30-A, Section 4702, subsection 12

The foundation of the nation’s third largest bank, CitiGroup joined with the Credit Builders Alliance and Experian Credit Agency to explore the implications of this disconnect. Their nationwide research demonstrates that the lack of credit information works against low-income households “[making] it difficult, if not impossible, for these struggling households to get and stay ahead in today’s economy.”³ Many people are unfortunately “credit invisible,” which this resolve would begin to address.⁴

Mechanism: This resolve would have MaineHousing conduct a two-year pilot project to facilitate rent payment history reporting to credit reporting agencies (Experian, TransUnion, Equifax). It would demonstrate how to address the disconnect between the local transaction (among renter and property-owner), and the three major credit agencies or bureaus. It would be voluntary, and would help low-income Mainers in various regions of the state, and in various types of communities.

Evidence of effectiveness:

It works! Renter credit reporting clearly builds credit for low-income residents. The Citi-CBA-Experian study of renter credit reporting had overwhelmingly favorable findings.⁵ All residents who were unscorable (“credit-invisible”) became scorable at either the near-prime (average 646) or prime (average 688) credit tiers. Most renters in the analysis initially had a subprime credit score, but 90% of them saw a significant increase in credit score (average of 32 points) merely due to the inclusion of positive rental payment history.

Building credit is a powerful tool for lifetime financial security. Liz Weston at MSN Money, has for years pointed out that a 100-point higher credit score is worth more than \$200,000 to a person over their lifetime (and potentially over \$2 million in accumulated wealth if the difference were invested).⁶ The Citi-CBA-Experian study showed that it’s possible for a person to make up one-third of that 100-point difference in just one year!

Thank you for your attention. I’d be happy to answer questions.

³ Chenven and Shulte, “The Power of Rent Reporting,” Citi Foundation and Credit Builders Alliance (2015) <https://www.creditbuildersalliance.org/wp-content/uploads/2019/06/CBA-Power-of-Rent-Reporting-Pilot-White-Paper.pdf>

⁴ Maine could be a leader in helping renters improve credit. Washington DC (2018) requires that public housing must allow opt-in credit reporting. California (2019) allows low-income housing providers to charge an additional ten dollars per month in an opt-in program. Colorado (2021) established a small pilot to determine the value of statewide credit reporting.

⁵ Chenven and Shulte, “The Power of Rent Reporting,” Citi Foundation and Credit Builders Alliance (2015) <https://www.creditbuildersalliance.org/wp-content/uploads/2019/06/CBA-Power-of-Rent-Reporting-Pilot-White-Paper.pdf>

⁶ <https://docplayer.net/15496517-Lifetime-cost-of-bad-credit-201-712.html>